

PUBLIC DISCLOSURE

April 13, 2004

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

SAUGUSBANK, A CO-OPERATIVE BANK

489 LINCOLN AVENUE
SAUGUS, MASSACHUSETTS 01906

DIVISION OF BANKS
ONE SOUTH STATION
BOSTON, MASSACHUSETTS 02110

<p>NOTE: This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the Division of Banks concerning the safety and soundness of this financial institution.</p>
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GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires the Massachusetts Division of Banks (Division) to use its authority when examining financial institutions subject to its supervision, to assess the institution's record of meeting its needs of its entire assessment area, including low and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the Division must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

This document is an evaluation of the CRA performance of Saugusbank, a Co-operative Bank (the "Bank") prepared by the Division, the institution's supervisory agency.

INSTITUTION'S CRA RATING: This institution is rated "Satisfactory"

The overall rating of satisfactory is based on the five criteria that encompass the CRA regulation for small institutions. The Bank is considered to meet the standards for satisfactory performance in all areas, with the exception of lending inside and outside the assessment area.

The net loan-to-deposit ratio has remained steady over the time period reviewed. The highest ratio occurred in March of 2004, with 71.9 percent, while the lowest ratio occurred in September of 2002, with 65.8 percent. Loan growth outpaced deposit growth during this time period, and net loans increased approximately 29.1 percent, while total deposits increased approximately 18.6 percent. The average net loan-to-deposit ratio over the past eight quarters reviewed was 67.7 percent. The net loan-to-deposit ratio is considered to meet the standards for satisfactory performance.

A review of the Bank's HMDA-reportable loans originated during the examination period indicates that less than a majority were inside the Bank's assessment area. During 2002 and 2003, the Bank originated 554 HMDA-reportable loans, totaling approximately \$100,449,000. Of these loans, 239 (43.1 percent) were originated inside the Bank's assessment area, totaling \$35,777,000 (35.6 percent). As a result of less than a majority of its HMDA-reportable loan origination's being originated within the assessment area, the Bank is considered to not meet the standards for satisfactory performance.

During 2002 and 2003, the Bank extended 27 HMDA-reportable loans to low-income borrowers, representing 11.3 percent of the total originations within the assessment area. During the same time period, the Bank extended 49 loans to moderate-income borrowers, representing 20.5 percent by number inside the assessment area. The Bank is considered to meet the standard for satisfactory performance in this criteria.

Based on the analysis of the geographic distribution of HMDA-reportable loans, the Bank has penetrated all census tracts throughout Saugus and has dispersed loans in a manner consistent with the demographics of the assessment area. The Bank's performance in this section is considered to meet the standards for satisfactory performance.

The Bank has not received any complaints regarding its CRA performance since the last examination, and fair lending policies and practices were reasonable for an institution of its size and resources.

PERFORMANCE CONTEXT

Description of Institution

Saugusbank, A Co-operative Bank is a state chartered co-operative financial institution headquartered at 489 Lincoln Avenue in Saugus, Massachusetts. The institution also operates one full-service branch office at One Hamilton Street in Saugus. Both offices are located in middle-income census tracts. As of March 31, 2004, assets totaled \$145,573,000, of which 64.9 percent were in the form of net loans.

Refer to the following table for additional information on the breakdown of loans.

Loan Portfolio Composition

Loan Type	Amount (000s)	Percent
One to Four-Family Residential Mortgages	\$ 45,153	47.5%
Commercial Real Estate	\$ 29,711	31.2%
Construction and Land Development	\$ 11,441	12.0%
Commercial Loans	\$ 3,378	3.6%
Equity Lines of Credit	\$ 3,081	3.2%
Consumer Loans	\$ 2,374	2.5%
Total Gross Loans	\$ 95,138	100.0%

Source: March 31, 2004 Consolidated Report of Condition.

The Bank is primarily a residential lender, with 47.5 percent of loans consisting of 1-4 family residential mortgages, followed by commercial real estate with 31.2 percent, and construction and land development with 12.0 percent. During the years under review, the Bank sold 336 loans, totaling \$51,643,925.

The Bank has strong competition from several financial institutions within its assessment area. These financial institutions include but are not limited to the following: Eastern Bank, East Boston Savings Bank, Salem Five Cents Savings Bank, and Saugus Federal Credit Union, as well as several regional and national mortgage companies. The market influence from these institutions appears to be significant, and serves to keep the Bank's rates and services competitive.

Description of Institution (continued)

Market share information obtained from PCI Services, Inc. CRA WIZ, based on 2002 aggregate performance data indicates that 235 mortgage companies, savings banks, commercial banks, cooperative banks, and credit unions have either originated or purchased residential mortgage loans within the bank's assessment area.

There are no significant financial or legal impediments that limit the Bank's ability to help meet the credit needs of the community. The Bank's most recent CRA evaluation, performed by the Federal Depositors Insurance Corporation (FDIC) as of January 28, 2002, assigned the Bank a rating of "Satisfactory." The previous evaluation performed by the Division as of October 16, 1998 also assigned the Bank a rating of "Satisfactory."

Description of Assessment Area

The Bank defines its assessment area as the Town of Saugus, which is located in Essex County and the Boston, MA-NH Metropolitan Statistical Area (MSA). Saugus is situated 9 miles north of Boston and is bordered by Lynnfield to the north, Lynn to the east, Revere to the south, Malden to the southwest, and Wakefield and Melrose to the west.

According to 2000 Census data, the population of the Bank's current assessment area was 26,078, of which 3.3 percent are minorities. The assessment area consists of five census tracts, all designated as middle-income.

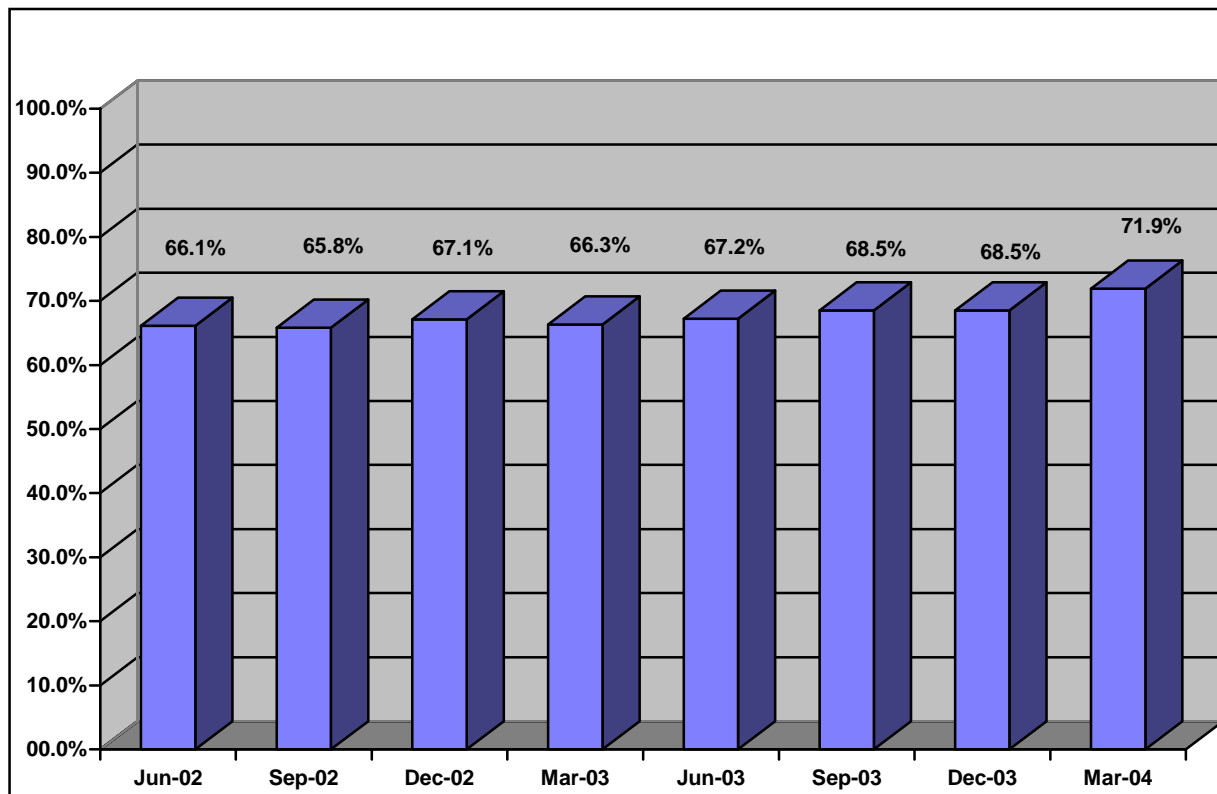
The median family incomes for the Boston MSA for 2002 and 2003 are \$74,200 and \$80,800, respectively. The income figures are based on estimated Department of Housing and Urban Development (HUD) information. Low-income is defined by the US Census Bureau as income below 50 percent of the median family income level for the MSA. Moderate-income is defined as income between 50 percent and 79 percent of the median family income level for the MSA. Middle-income is defined as income between 80 percent and 119 percent of the median income. Upper-income is defined as income equal to or greater than 120 percent of the median income.

PERFORMANCE CRITERIA

1. LOAN TO DEPOSIT ANALYSIS

An analysis of the Bank's net loan-to-deposit ratio was performed during the examination. The analysis utilized the last eight quarters of the FDIC Call Report data for the Bank. This ratio is based on total loans, net of unearned income, and net of the allowance for loan and lease losses, as a percentage of total deposits. The Bank's net loans to total deposits as reported to the FDIC were reviewed for the quarters beginning June 30, 2002 through March 31, 2004. The Bank's average net loan to deposit ratio for this time period was determined to be 67.7 percent. The net loan-to-deposit ratio has remained somewhat stagnant over the time period reviewed. The highest ratio occurred in March of 2004, with 71.9 percent, while the lowest ratio was 65.8 percent in September of 2002. The asset size of the institution increased from \$121,047,000 as of June 30, 2002, to \$145,573,000 as of March 31, 2004, which represents a 20.3 percent increase. Loan growth outpaced deposit growth during this time period, and net loans increased approximately 29.1 percent, while total deposits increased approximately 18.6 percent. The following graph depicts the net loan-to-deposit ratio for each quarter under review.

**QUARTERLY NET LOAN-TO-DEPOSIT RATIOS
JUNE 30, 2002 – MARCH 31, 2004**



LOAN TO DEPOSIT ANALYSIS (continued)

The Bank's net loan to deposit ratio was compared to the ratios of two other area institutions. Although both of these institutions have much larger assets than the Bank, both have a physical presence in Saugus and remain competitors. These ratios are as of December 31, 2003.

INSTITUTION	NET LOAN-TO-DEPOSIT RATIO
Saugus Bank, A Co-operative Bank	68.5%
Eastern Bank	97.3%
East Boston Savings Bank	63.4%

Based on the above information and the Bank's capacity to lend, the strong competition from other institutions in the assessment area, demographic and economic factors present in the assessment area, and the lending opportunities available in the assessment area, the Bank's net loan to deposit ratio is considered to meet the standards for satisfactory performance.

2. COMPARISON OF CREDIT EXTENDED INSIDE AND OUTSIDE OF THE ASSESSMENT AREA(S)

The Bank's 2002 and 2003 HMDA/LAR Loan Application Registers (LARs) were reviewed to determine the amount of credit extended within the Bank's assessment area. During this period, the Bank originated 554 HMDA-reportable loans, totaling approximately \$100,449,000. Of these loans, 239 (43.1 percent) were originated inside the Bank's assessment area, totaling \$35,777,000 (35.6 percent).

Refer to the following table for additional information regarding the Bank's HMDA-reportable lending, by both number and dollar volume.

Distribution of Home Mortgage Loans Inside and Outside of the Assessment Area								
Year	Inside				Outside			
	Number of Loans		Dollar in Loans (000s)		Number of Loans		Dollars in Loans (000s)	
	#	%	\$	%	#	%	\$	%
2002	109	41.8%	15,967	34.0%	152	58.2%	31,056	66.0%
2003	130	44.4%	19,810	37.1%	163	55.6%	33,616	62.9%
Total	239	43.1%	35,777	35.6%	315	56.9%	64,672	64.4%

Source: 2002/2003 HMDA DATA

As indicated in the table above, less than a majority of loans originated during the examination period were inside the Bank's assessment area. The Bank's number of loans have increased by 12.3 percent from calendar year 2002 to 2003.

COMPARISON OF CREDIT EXTENDED INSIDE AND OUTSIDE OF THE ASSESSMENT AREA(S) (continued)

Similarly, by dollar volume, the Bank's HMDA reportable loans increased by 13.6 percent for the same time period. Additional analysis from PCI Services, CRA WIZ indicates that the Bank ranks as the number six lender, capturing 3.7 percent of the market share for HMDA-reportable loans originated within Saugus during 2002. The five institutions that rank higher than the Bank are Countrywide Home Loans, Washington Mutual Bank, Eastern Bank, Saugus Federal Credit Union, and Ohio Savings Bank.

Based on the above information, the analysis indicates that the Bank's comparison of credit extended inside and outside of the assessment area does not meet the standards for satisfactory performance, as less than a majority of the loans were granted inside the assessment area.

3. DISTRIBUTION OF CREDIT AMONG BORROWERS OF DIFFERENT INCOME LEVELS

The Bank's HMDA-reportable loans were further analyzed to determine the distribution of lending by borrower income level. The borrowers' reported incomes were compared to the median family incomes for the Boston, MA Metropolitan Statistical Areas (MSA). The income figures are based on estimated HUD information.

Low-income is defined by the US Census Bureau as income below 50 percent of the median family income level for the MSA. Moderate-income is defined as income between 50 percent and 79 percent of the median family income level for the MSA. Middle-income is defined as income between 80 percent and 119 percent of the median income. Upper-income is defined as income equal to or greater than 120 percent of the median income.

The following table shows, by number, HMDA-reportable loans to low-, moderate-, middle- and upper-income borrowers in comparison to the percentage of households within the assessment area in each respective income group.

Distribution of HMDA Reportable Loans Within the Assessment Area to Borrowers of Different Income Levels by Number								
Borrower Income Level	Total Households		2002		2003		Total	
	#	%	#	%	#	%	#	%
< 50%	2,182	22.3%	9	8.3%	18	13.9%	27	11.3%
50 – 79%	1,517	15.5%	17	15.6%	32	24.6%	49	20.5%
80 – 119%	2,094	21.4%	43	39.4%	44	33.8%	87	36.4%
> = 120%	3,992	40.8%	39	35.8%	34	26.2%	73	30.5%
N/A	0	0.0%	1	0.9%	2	1.5%	3	1.3%
Total	9,785	100.0%	109	100.0%	130	100.0%	239	100.0%

Source: HMDA/LAR Data for the period January 1, 2002 to December 31, 2003

DISTRIBUTION OF CREDIT AMONG BORROWERS OF DIFFERENT INCOME LEVELS (continued)

During 2002 and 2003, the Bank extended 27 HMDA-reportable loans to low-income borrowers, representing 11.3 percent of total originations within the assessment area. Although these numbers are below the 22.3 percent of low-income households within the assessment area, there are mitigating factors present that account for this disparity. Some such factors include competition, the percentage of people living below the poverty level who cannot afford to purchase a home, and escalating prices of homes in Saugus.

In addition, the Bank extended 49 loans to moderate-income borrowers, representing 20.5 percent by number inside the assessment area. The number of loans to moderate-income borrowers is above the 15.5 percent of moderate-income households within the assessment area.

The distribution of the Bank's loans among various borrower income levels may also be compared to that of all other HMDA-reportable lenders in the assessment area. Other HMDA-reporters include bank and non-bank entities such as large national banking companies, other local banks, credit unions, and mortgage companies. The most recent year for this comparison is 2002.

The following table shows the Bank's distribution of loans among various income levels compared to that of all other 235 HMDA-reportable lenders for calendar year 2002 throughout the Bank's assessment area.

Distribution of HMDA Reportable Loans – Assessment Area Saugusbank, A Co-operative Bank Compared to All Other Reporters								
Median Family Income Level	Number of Loans				Dollar Amount of Loans			
	Saugusbank		All Other Reporters		Saugusbank		All Other Reporters	
	#	%	#	%	\$(000)	%	\$(000)	%
Low	9	8.3%	135	4.7%	806	5.1%	15,631	2.9%
Moderate	17	15.6%	638	22.4%	2,159	13.5%	102,254	18.9%
Middle	43	39.4%	943	33.1%	6,933	43.4%	181,065	33.4%
Upper	39	35.8%	779	27.4%	5,779	36.2%	172,718	31.8%
NA	1	0.9%	353	12.4%	290	1.8%	70,811	13.0%
Total	109	100.0%	2,848	100.0%	15,967	100.0%	542,479	100.0%

Source: HMDA LAR 2002 HMDA Aggregate Data

As shown above, the Bank's percentage of lending to borrowers of low-income is above the aggregate by number and dollar amount for 2002. The Bank originated 8.3 percent by number and 5.1 percent by dollar amount of the total loans within the assessment area to low-income borrowers, compared to the aggregate with 4.7 percent by number and 2.9 percent by dollar amount.

DISTRIBUTION OF CREDIT AMONG BORROWERS OF DIFFERENT INCOME LEVELS (continued)

The Bank's HMDA reportable loans originated during 2002 to moderate-income borrowers accounted for 15.6 percent by number and 13.5 percent by dollar amount within the assessment area. Both number and dollar amount are below the aggregate lending to moderate-income borrowers for 2002 as 22.4 percent by number and 18.9 percent by dollar volume of the aggregate lending were originated to moderate-income borrowers.

An analysis was performed to determine how the Bank's originations compare to all other lenders within the assessment area. During 2002, the most recent data available, the Bank ranked 3rd in lending to low-income borrowers in the assessment area and ranked 11th in lending to moderate-income borrowers. Overall, the Bank ranked 8th in lending to low- and moderate-income borrowers throughout the assessment area. This ranking is considered to be reasonable given the size and resources of the Bank.

Based on the information above, the Bank's lending to borrowers of different income levels, including those of low and moderate-income, reflects an adequate performance. Therefore, the Bank is considered to meet the standards for satisfactory performance under this criteria.

4. GEOGRAPHIC DISTRIBUTION

The Bank's HMDA reportable loans located within the Bank's assessment area were further analyzed to determine their location by census tract income level. The assessment area is comprised of five census tracts, all of which are located in middle-income tracts.

The following table provides a breakdown, by number and dollar amount, of the Bank's residential loans within its assessment area according to the census tracts located throughout Saugus.

Distribution of HMDA Reportable Loans Within the Assessment Area by Census Tract Income Level by Number						
Census Tract Income Level	2002		2003		Total	
	#	%	#	%	#	%
2081.01	23	21.1	31	23.8	54	22.6
2081.02	16	14.7	25	19.2	41	17.1
2082	23	21.1	20	15.4	43	18.0
2083	33	30.3	30	23.1	63	26.4
2084	14	12.8	24	18.5	38	15.9
Total	109	100.0	130	100.0	239	100.0

Source: HMDA/LAR Data

GEOGRAPHIC DISTRIBUTION (continued)

Based on the analysis of the geographic distribution of HMDA reportable loans, the bank has penetrated all of the census tracts throughout Saugus and has dispersed loans in a manner consistent with the demographics of the assessment area. The Bank's performance in this criteria is considered to meet the standards for satisfactory performance.

5. FAIR LENDING POLICES AND PRACTICES

A review of the Bank's public comment file indicated that the Bank received no complaints pertaining to the institution's CRA performance since the previous examination. In addition, a review of the bank's residential loan application files was conducted to evaluate fair lending policies and procedures. There were no discriminatory practices detected during the fair lending review.

THE COMMONWEALTH OF MASSACHUSETTS

To the COMMISSIONER OF BANKS:

THIS IS TO CERTIFY, that the report of examination of the

SAUGUSBANK, A CO-OPERATIVE BANK

for compliance with applicable consumer and fair lending rules and regulations and the Community Reinvestment Act (CRA), as of the close of business **April 13, 2004**, has been read to or by the undersigned and the matters referred to therein will have our immediate attention.

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A majority of the Board of Directors

Dated at _____ this _____ day of _____ 20 ____

PERFORMANCE EVALUATION DISCLOSURE GUIDE

Massachusetts General Laws Chapter 167, Section 14, as amended, and the Uniform Interagency Community Reinvestment Act (CRA) Guidelines for Disclosure of Written Evaluations require all financial institutions to take the following actions within 30 business days of receipt of the CRA evaluation of their institution:

- 1) Make its most current CRA performance evaluation available to the public;
- 2) At a minimum, place the evaluation in the institution's CRA public file located at the head office and at a designated office in each assessment area;
- 3) Add the following language to the institution's required CRA public notice that is posted in each depository facility:

"You may obtain the public section of our most recent CRA Performance Evaluation, which was prepared by the Massachusetts Division of Banks, at 489 Lincoln Avenue in Saugus, Massachusetts.

- 4) Provide a copy of its current evaluation to the public, upon request. In connection with this, the institution is authorized to charge a fee, which does not exceed the cost of reproduction and mailing.

The format and content of the institution's evaluation, as prepared by its supervisory agency, may not be altered or abridged in any manner. The institution is encouraged to include its response to the evaluation in its CRA public file.